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Study on Factors Affecting the Financial Performance of Enterprises

Dr. Dinh Cong Thanh, Dr. Pham Le Hong Nhung, BBA. Nguyen Thi Ngan

School of Economics, Can Tho University, Can Tho city, Vietnam

ABSTRACT

The research objective of the article is study the factors affecting the financial performance of enterprises in Vietnam. Collected data are 189 observations published by the General Statistics Office from 2017 to 2019. The regression analysis results show that the financial performance of enterprises depends on five factors, including efficiency in using labor, financial leverage, capital turnover, fixed asset ratio, and total asset growth rate. In which, the factor of capital turnover has the most significant influence on the performance of enterprises. Based on the research results, the article proposes two managerial implications to improve the financial situation, including improving labor productivity and building a reasonable capital structure for enterprises.

KEYWORDS: *financial performance; ROA; ROE; ROS*

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1. INTRODUCTION:

Financial performance is an important indicator reflecting the efficiency of the enterprise's use of resources (Mashovic, 2018). This is an essential indicator that all enterprises must strive to achieve. Therefore, enterprises must identify and measure financial performance factors to operate effectively. Financial performance is also a system of indicators to measure the overall financial health of an enterprise in a certain period. Also, according to Kittikunchotiwut (2020), financial performance represents the level of revenue and profit from the enterprise's assets and financial resources.

According to statistics from the Vietnam Enterprise White Book (Ministry of Planning and Investment), in 2019, there were 668,505 operating enterprises in the whole country. The majority of enterprises are small and medium-sized, accounting for 97.40%. Statistics from the General Statistics Office show that enterprises operate in many fields such as services, agriculture, forestry and fishery, industry, and construction. Accordingly, profitable enterprises accounted for 43.0%, break-even accounted for 8.2%, and the rate of loss-making enterprises accounted for 48.8%.

The low efficiency of the business operation is that the impact of the Covid-19 epidemic has made the business difficult in terms of capital, scarce raw materials, and unbalanced output (Pham et al., 2020). In addition, many enterprises also face difficulties in cash flow and debt, leading to measures to cut cash flow in the context of limited revenue (Tran and Pham, 2021). This shows that business enterprises have not brought high efficiency. Therefore, it is necessary to study the factors that affect the financial performance of enterprises to find the impact factors and solutions to help enterprises operate better.

Based on the above analysis, this article is designed to analyze the financial performance of enterprises in Vietnam. Besides, this study identifies factors affecting the financial performance of enterprises. Based on that, we propose governance implications to improve financial efficiency for enterprises in Vietnam.

2. THEORETICAL BACKGROUND AND RESEARCH MODEL

2.1. Theoretical background

First, Mashovic (2018) said that the performance of an enterprise is an essential system of indicators that reflects an organization's ability to optimize the allocation of resources. To measure the performance of enterprises, many studies are based on the theory of the Balanced Scorecard (BSC) by Kaplan and Norton (1992). According to the BSC theory, the performance of an enterprise is assessed through four aspects, including (i) Financial efficiency, (ii) Customer efficiency, (iii) Effective handling of internal processes, and (iv) Effective organizational development.

Although there are many performance indicators, it can be seen that there are two main groups of indicators: financial performance and non-financial performance of the enterprise. Efficiency is an important indicator because it reflects the effectiveness of business management and measures the enterprise's overall financial health (Kittikunchotiwut, 2020).

To measure the financial performance of a enterprise, researchers often use return on assets (ROA), return on sales (ROS), and return on equity (ROE). Accordingly, the ROA ratio is an important indicator to measure the efficiency of using assets of an enterprise. The higher the ROA, the more efficient the enterprise's ability to use assets (Margaretha and Supartika, 2016; Phan and Nguyen, 2021). Similarly, the ROS ratio reflects the profitability of sales. This indicator measures the ratio of an enterprise's profit to its total revenue from business activities (Nguyen et al., 2021). And most importantly, measuring financial performance is the indicator to evaluate the efficiency of the enterprise's use of equity (ROE) (Hung and Cuong, 2020; Nguyen et al., 2021).

2.2. RESEARCH MODEL

A. The impact of labor efficiency on financial performance

Employee efficiency reflects the level of revenue generation of employees in firms. Margaretha and Supartika (2016) suggest that managers will strictly control the working process to maximize productivity when enterprises are limited in assets and available resources. Therefore, making good use of and exploiting labor resources can generate revenue and maximize profits for enterprises. Thus, labor productivity has a positive impact on the profitability indicators of enterprises. From there, the proposed hypothesis H1 is as follows:

H1: Labor efficiency has a positive effect on the financial performance of enterprise

B. The impact of financial leverage on financial performance

Financial leverage reflects the debt position of the enterprise and its ability to access financial resources to meet enterprise needs. This index indicates the risk involved in establishing a firm's capital structure (Matar and Eneizan, 2018). Also, according to Matar and Eneizan (2018), when financial leverage is too high, enterprises will face the risk of default. Therefore, financial leverage negatively affects the financial performance of the company. Similarly, recent research by Phan and Nguyen (2021) also suggests that financial leverage has a negative impact on the profitability of enterprises. From the above argument, the author proposes hypothesis H2 as follows:

H2: Financial leverage has a negative effect on the financial performance of enterprise

C. The impact of capital turnover ratio on financial performance

The capital turnover ratio reflects the ability of a enterprise to use capital to generate revenue. Enterprises in Vietnam are primarily small and medium-sized, with limited capital, so enterprises need to consider using reasonable capital in business activities. Nguyen et al. (2019) believe that this indicator has a positive relationship with ROA and ROE but has a negative effect on ROS. Similarly, Phan and Nguyen (2021) also believe that total asset turnover has a positive impact on the enterprise's profitability. From there, the following hypothesis is proposed:

H3: Capital turnover ratio has a positive effect on the financial performance of enterprise

D. The impact of fixed asset ratio on financial performance

Fixed assets ratio is the ratio of fixed assets to total assets of the enterprise. The higher the fixed-assets ratio, the more profitable the company is to invest in assets. Currently, there are many conflicting arguments about this effect. For example, Hang and Linh (2020) argue that the fixed-assets ratio negatively affects financial performance because enterprises inappropriately invest in facilities, equipment, and equipment assets. Meanwhile, Hung and Cuong (2020) believe that when enterprises invest in fixed assets and long-term assets with stable capital, the enterprise's financial activities will be increased. Therefore, if fixed assets are used rationally and effectively by enterprises, they will bring profits. However, the author suppresses the hypothesis:

H4: The ratio of fixed assets has a positive impact on the financial performance of the enterprise

E. The impact of the growth rate of total assets on financial performance

The growth rate of total assets is a factor that reflects the growth rate of the enterprise's assets over time. Nguyen et al. (2021) argue that the more assets an enterprise have, the larger the capital size. That shows that the business scale of the enterprise has been expanded, so that the enterprise has the advantage of low-interest rates and discount incentives due to large-scale transactions. Nguyen et al. (2021) also emphasize that the growth rate of total assets has a positive impact on the enterprise's profitability. From there, the following hypothesis is proposed:

H5: The growth rate of total assets has a positive effect on the financial performance of the enterprise

From the above arguments and hypotheses, the article proposes a model to study the factors affecting the financial performance of enterprises in Vietnam as follows:

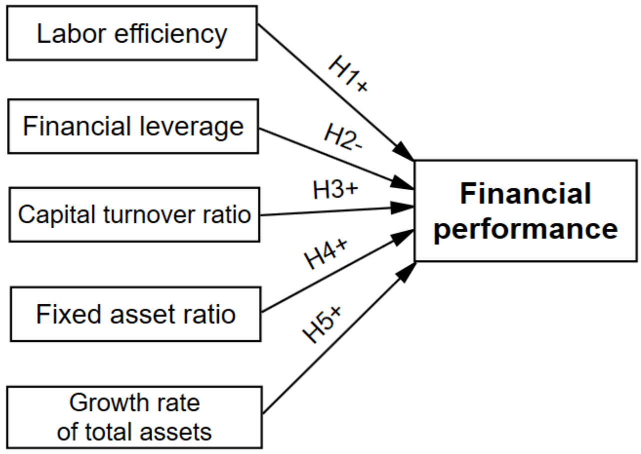

Figure 1: Proposed model
Source: Author's suggestion

Table 1: Describe the variable

Variable	Statements	Hypothesis	Citation
Dependent variable			
ROA	Return on Assets		Margaretha and Supartika (2016); Phan and Nguyen (2021)
ROS	Return On Sales		Nguyen et al. (2021)
ROE	Return On Equity		Hung and Cuong (2020); Nguyen et al. (2021)
Independent variables			
LAB	Labor efficiency	H_1+	Margaretha and Supartika (2016)
LEV	Financial leverage	H_2^-	Matar and Eneizan (2018); Phan and Nguyen (2021)
CTR	Capital turnover ratio	H_3+	Nguyen et al. (2019); Phan and Nguyen (2021)
FAR	Fixed asset ratio	H_4+	Hang and Linh (2020); Hung and Cuong (2020)
GRO	Growth rate of total assets	H_5+	Nguyen et al. (2021)

Source: References from related studies

3. RESEARCH METHODS

3.1. Method of data collection

Secondary data are collected from the Vietnam Enterprise White Paper published by the Ministry of Planning and Investment in 2019, 2020, and 2021. In addition, the article collects data on the general business performance of enterprises in 63 provinces/cities in Vietnam from the period 2017 to 2019 from the General Statistics Office.

3.2. Analytical method

Based on the theoretical basis and review of related studies, the article uses linear regression to analyze the factors affecting the financial performance of enterprises in Vietnam. Accordingly, the article uses the OLS method of least squares (Ordinary Least Squares) to test the hypotheses that are the factors affecting the financial performance of enterprises.

4. RESEARCH RESULTS

4.1. Summary of the business operation of the enterprise

Net revenue of Vietnamese enterprises had high growth from 2017 to 2019. According to statistics, the net revenue of enterprises in 2018 reached 23,633,978 billion VND, up 14.4% compared to 2017. By 2019, the revenue of enterprises reached 26,327,452 billion VND, up 11.4% compared to 2018. Accordingly, the revenue of enterprises mainly focused on large enterprises, accounting for more than 70 % of enterprises' total revenue. Meanwhile, the total revenue from business activities of micro-enterprises only accounts for a very modest proportion (only nearly 3%). The details are shown in Figure 2 as follows:

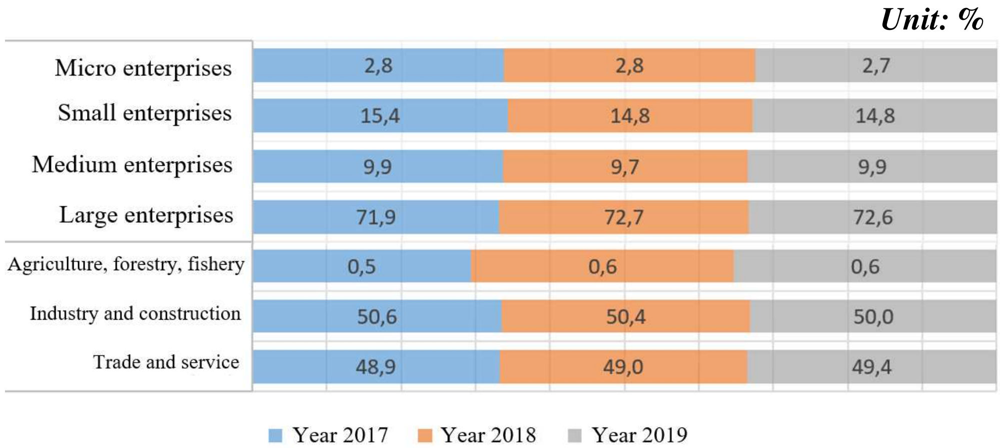

Figure 2: Net revenue structure of the enterprise from 2017 to 2019
Source: General Statistics Office of Vietnam

Statistical results in Figure 2 also show that the revenue of enterprises focuses mainly on enterprises operating in the fields of commerce - service and industry - construction. Accordingly, in 2017, the net revenue of these two fields respectively was 10,092,450 billion VND and 10,454,522 billion VND, equivalent to 48.9% and 50.6%. This proportion of revenue does not significantly differ between 2018 and 2019. Meanwhile, the revenue proportion of enterprises operating in agriculture, forestry, and fishery accounts for only 0.5 - 0.6%.

4.2. Analysis of factors affecting financial performance

First, the author checks the multicollinearity of the proposed research model. The article uses VIF (Variance inflation factor) to check for multicollinearity. Accordingly, multicollinearity occurs when one variable has a VIF greater than 10. The VIF values of the independent variables are shown in Table 2 as follows:

Table 2: VIF coefficient of the research model

Variables	VIF	1/VIF
LAB	1.58	0.63
CTR	2.22	0.45
LEV	1.15	0.87
FAR	1.39	0.72
GRO	1.04	0.96
Average VIF		1.48

Source: Data processing results from 189 observations

The results in Table 2 show that the VIF values of all variables are less than 10, and the average VIF is only 1.48. Therefore, the variables measuring the impact of factors on financial performance do not have multicollinearity. From there, the author conducts to test the hypotheses of the proposed research model. The results of the regression analysis are shown in Table 3 as follows:

Table 3: Results of testing the research model

Variables	ROA	ROE	ROS
Constant	-1.561 (-1.45)	-5.582 (-2.07)	1.102 (0,91)
LAB	-0.0612*** (-2.63)	-0.151*** (-2.99)	-0,0588*** (-3.28)
CTR	5.263*** (13.30)	12.29*** (13.54)	3.106*** (7.50)
LEV	-2.588** (-2.06)	-1.610 (-0.48)	-3.719*** (-2.83)
FAR	0.0237* (1.95)	0.0442 (1.53)	0.0231* (1.68)
GRO	0.0124*** (2.64)	0.0454*** (3.54)	0.00810 (1.47)
Pro > F	0.000	0.000	0.000
R^2	48.74%	43.30%	27.13%

Source: Data processing results from 189 observations
Note: *, **, * correspond to statistical significance 10%, 5%, 1%**

The regression analysis results show that the article has pointed out the factors affecting the financial performance of enterprises. Most of the hypotheses have similarities with previous authors' studies. However, results in Table 3 show that labor efficiency has a negative impact on the financial performance of enterprises. This is not as expected according to hypothesis H1 of Margaretha and

Supartika (2016). The reason may be that most enterprises in Vietnam are small and medium-sized enterprises, laborers still have limited expertise and skills, so the efficiency of using labor is not high.

The research results also show that financial leverage and growth rate of total assets of enterprises have an impact on return on total assets (ROA) and return on sales (ROS). This result is similar to the studies of Matar and Eneizan (2018), Phan and Nguyen (2021), Hang and Linh (2020), Hung and Cuong (2020). This shows that asset growth can help enterprises expand their business scale and diversify business activities. However, at the 10% statistical significance level, it shows that the financial leverage factor and the growth rate of total assets do not affect the ROE ratio of enterprises. The reason is that the enterprise uses the capital structure inefficiently, and the debt has increased over the years.

The results of the regression analysis in Table 3 also show that the capital turnover factor has a positive impact on the financial performance of enterprises, similar to the study of Nguyen et al. (2019), Phan and Nguyen (2021). This is considered one of the most critical factors contributing to the growth in financial performance, especially the substantial impact on ROE. Research results show that the higher the capital turnover, the faster the capital and assets are turned around. At that time, enterprises will save costs, thereby creating more profits and increasing profit rates.

5. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The article has identified the factors affecting the financial performance of enterprises in Vietnam. Accordingly, the performance of enterprises in Vietnam is influenced by the following factors: (1) efficiency in using labor; (2) financial leverage; (3) capital turnover; (4) fixed asset ratio; and (5) total asset growth rate. Among the factors affecting financial performance, the element of capital turnover has the most significant influence, especially the impact on the enterprise's rate of return on equity. However, the performance indicators of labor use and financial leverage negatively affect the profit margin of the enterprise. Therefore, enterprises can increase financial efficiency by improving labor efficiency and building a reasonable capital structure.

Based on the research results, the article proposes some managerial implications to improve the financial performance of enterprises. Firstly, enterprises need to maximize human resources and improve workers' skills, especially SMEs. In addition, enterprises need to have policies to encourage and motivate employees such as social welfare, salary policy, and a good environment. Enterprises should also regularly provide training and direct guidance to create conditions for employees to participate in professional and professional training courses. Secondly, the research results show that financial leverage has a negative impact on the financial performance of enterprises, the benefits from debt do not cover the costs incurred, leading to a decrease in the profits of enterprises. Therefore, enterprises need to balance the ratio of long-term and short-term loans to ensure high-efficiency investment. In addition, enterprises can take advantage of many different forms of loans such as issuing shares, issuing bonds, joint ventures, and association with other organizations. Each form has its advantages and disadvantages, so enterprises need to consider choosing the suitable method for the actual situation. Depending on the characteristics of the enterprise, industry, and capital needs, enterprises can choose different forms of capital mobilization to bring the best efficiency.

The limitations and future recommendations: The financial performance of enterprises is affected by many different factors. In the scope of this study, only five factors are analyzed as mentioned above. The data collected from the General Statistics Office will be published in 2021, so the data in the study is only collected until 2019. Therefore, the following authors can study the impact of other factors on financial performance. In addition, subsequent studies may collect more recent years' data to reflect the actual performance of enterprises.

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